Buy and Forget Enbridge Inc.

Description

When well-known dividend stocks have a pullback in price, investors pay attention. Even saving a few percentage points per share can have a significant impact on the total income earned — and when you add dividend reinvestment, a smart first position can make all the difference.

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Enbridge Inc. (TSX:ENB)(NYSE:ENB), Canada's largest pipeline business and one of the country's top dividends, experienced this sort of pullback. In the past three months, the company has given up over 8% of its value. Naturally, the question on all investor's minds is, Is the company in real trouble or just experiencing some turbulence?

To answer that, let's look at the quarterly results.

Available cash flow from operations (ACFFO) dropped by $1.03 per share, or 18%, from Q1 2016. Anytime a dividend stock experiences a significant drop in cash flow, investors are going to pause.

The thing is, management had warned investors that this was going to happen for a multitude of reasons, only one of which is a true negative. The first two reasons have to do with the Spectra Energy merger. The combined companies have far more debt than what Enbridge had on its own, so interest payments increased. And there are more shares now that the two companies have merged, so cash flow per share gets spread out.

The third reason, and one that might be worth pause, is that the company's liquids pipeline segment saw earnings drop. No one wants to see this happen, but from time to time, it does.

Nevertheless, going forward, the company is primed to generate incredible profits thanks to the merger. The company expects adjusted profits before interest and taxes to be in the $7.2-7.6 billion range in 2017 versus the $4.7 billion it earned in 2016. When you have a much larger company, you can earn far greater amounts of profit, and the synergies between the merged companies can make profits even greater.

Then there are the growth opportunities. Enbridge is going to begin construction to replace the aging Line 3. This $8.4 billion project will allow the transport of 375,000 barrels per day of oil to Wisconsin;

it's just waiting for U.S. regulatory approval. There's also the 130,000-barrel-per-day Norlite project, the 470,000-barrel-per-day Bakken pipeline system, and the Regional Oil Sands Optimization project.

Between now and 2019, Enbridge will complete $26 billion in short-term projects. Then there is the additional $48 billion in long-term projects that are waiting to get started.

All of this contributes to the company's aggressive and shareholder-friendly dividend-growth plan. Today, investors can feel comfortable knowing that the 4.68% yield, good for $0.61 per quarter, is more than covered with a payout ratio of about 50%. From 2018 through 2024, the company is looking to boost the dividend by 10-12% on average every single year. That's insane growth and relatively predictable because of the massive projects that will provide boosts to cash flow.

Here's the strategy I'd take: start buying shares of Enbridge. Use the company's DRIP system, which gets you a 2% discount on all shares you purchase. Then forget about it. Let the dividends compound so your income is boosted. Oil may go away in the next few decades, but for now, there needs to be a way to get it from the producers to the refiners, and pipelines are one way.

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